

ADMINISTRATION, AUDIT, AND ENFORCEMENT

During the 1999-2000 reporting period, Charitable Gaming Division initiated and/or resolved separate administrative actions involving gaming licenses. Below is a summary of the Division's Administrative Actions:

Administrative Orders Issued:

License Denial	9
License Suspension	2
Administrative Fines *	15
Cease and Desist	1
Other	7

Administrative Actions Initiated and Pending:

License Denial	1
License Suspension	4
Administrative Fine	5
Tax Assessment	1

License Denials Initiated and Resolved without an Order:

Rescinded ^	5
Resolved by Stipulation	1
Resolved by Stipulation, Suspension &/or Fine *	2

* Total amount collected: \$59,960. Monies collected from the fines assessed are deposited by the State Treasurer into the Permanent School Fund for the support and maintenance of schools in Nebraska.

^ License denials were rescinded for a number of reasons including applicant withdrawal of the application and the payment of delinquent taxes in instances where the license denial was based on nonpayment of taxes.

Temporary licenses and authorizations were granted by the State Tax Commissioner to applicants where the Department sought to deny a license application in order to protect the rights of the parties during the pendency of any administrative or court proceedings. At the close of the annual reporting period, the following temporary licenses and authorizations had been granted:

Class II Lottery by the Sale of Pickle Cards	1
Sales Agent	3
Pickle Card Authorizations	67

The Policy/Licensing Section of the Charitable Gaming Division is responsible for the licensing of individuals, businesses, counties, cities, and villages, and nonprofit organizations which conduct charitable gaming activities in Nebraska. It is also responsible for the implementation of legislation enacted by the Nebraska Legislature relative to charitable gaming activities, identifying needed legislative changes in the charitable gaming areas which it regulates, recommending and drafting proposed legislation relative to charitable gaming, promulgating administrative regulations and revenue rulings to clarify and supplement statutory provisions, the development and publication of information guides and a biannual newsletter for gaming licensees, and for the rendering of day to day opinions and interpretations of charitable gaming laws.

During this past legislative session, the Nebraska Legislature enacted LB658, LB659, and LB1086. LB658 authorized a new type of pickle card where certain winners are determined by the drawing of bingo balls. Revenue Ruling 35-00-02 was drafted and adopted by the Department to address the marketing, sale, and conduct of a lottery by the sale of pickle cards using these types of pickle cards now referred to as bingo event tickets. Only a small number of these types of pickle cards have been submitted by manufacturers for approval. LB659 was originally introduced to legalize electronic pickle cards and electronic pickle card dispensing devices. The original legislation was deleted and replaced with language that changed the distribution of charitable gaming tax revenue. Under the provisions of the legislation, the unused portion of the charitable gaming tax revenue available to the Charitable Gaming Division for regulation and enforcement would be transferred to the Compulsive Gamblers Assistance Fund as opposed to being lapsed to the General Fund. LB1086 was the Charitable Gaming Division's technical bill. Foremost in the changes contained in LB1086 was the implementation of biennial licensing for nonprofit organizations and businesses which are licensed for bingo, lottery by pickle cards, or lottery/raffle activities. Biennial licensing will be phased in over a two-year period commencing October 1, 2001. LB560 which was introduced to eliminate certain restrictions on the conduct of keno games failed to be enacted.

In December 1999, Revenue Ruling 35-99-1 was adopted to address the minimum regulatory requirements associated with the use and operation of an automated ball draw system for the selection of winning numbers in a keno lottery. The automated ball draw system removes much of the human element involved with a ball draw

method of winning number selection. Machine-readable keno balls are read by the system and the winning numbers selected are electronically entered into the computerized keno system. The use of an automated ball draw system allows a lottery operator to reduce the number of persons required to be on duty.

In April 2000, the Policy/Licensing Section undertook a project to update its database of county/city lottery workers. Each county, city, or village conducting a lottery was provided a list of the active licensed lottery workers on file for their community and requested to update the list and file new applications for individuals who were not on the list and working at the community's lottery. As a result of this undertaking, we learned that a significant number of licensees were no longer working and could be inactivated from the database. A county/city lottery worker license does not currently have an expiration date. It is difficult to maintain an accurate database of lottery workers if the communities involved in conducting a lottery do not keep us informed of changes. We will be addressing deficiencies in the current lottery worker licensing requirements during the next legislative session.

Due to declining wagering in charitable gaming activities, there continue to be proposals made to the Policy/Licensing Section by interested parties to enhance the existing games. A number of proposals have been received and reviewed by our office relating to enhancements to the game of keno. A \$1 million jackpot was authorized for the City of Bellevue. Some other game variations which allow for bonus prize payouts were also authorized. We also reviewed an electronic pickle card validation system and concluded that the system was not authorized by the Nebraska Pickle Card Lottery Act.

Additional enhancements have been made to the Charitable Gaming Division's portion of the Department of Revenue's Web site.

The Audit Section of Charitable Gaming Division has responsibility for the enforcement and compliance review of licensed organizations conducting bingo, pickle card, lottery/raffle, and county/city lottery activity. The section is also responsible for the review of certain financial aspects of the computerized keno systems that are approved by the department for use in county/city lottery operations.

In addition to routine and requested field audits, the audit section conducted monthly reviews of the pickle card tax returns submitted by licensed distributors; monthly review of the pickle card activity of organizations with significant cash shortages; reviews of bingo paper usage reflected on quarterly reports filed by Class II bingo licensees; quarterly reviews of the tax returns submitted by organizations conducting bingo and lottery/raffle and counties, cities and villages conducting keno; annual reviews of the gaming activity reports for counties, cities, and villages conducting keno and all nonprofit organizations which were involved in charitable gaming activity. The Audit Section activity breakdown is as follows:

- 652 Pickle card annual reports reviewed
- 221 Bingo annual reports reviewed
- 218 Lottery/raffle annual reports reviewed
- 134 County/city annual reports reviewed
- 33 Annual report nonfilers identified and referred to Investigations
- 8 Annual report shortages or audited losses identified and referred to Investigations
- 14 Other annual report violations identified and referred to Investigations (Inspections)
- 10 Other annual report violations identified and referred to policy and legal
- 4 Field audits of bingo operations
- 13 Field audits of pickle cards operations
- 8 Field audits of keno operations (county/city lottery)
- 273 Letters written to licensees in an attempt to explain problems with the annual reports, how a nonprofit can use the annual reports to audit themselves.
- 12 Field audit visits to explain problems on the annual reports, take inventory, reconcile what the organization deposited into the pickle card account to the calculated amount of the funds generated from the sale of pickle cards. Memoranda, with audit findings and work papers, were prepared where there were violations of gaming laws and provided to the Legal and Investigation Divisions for further action.
- 19 Tracking of monthly reconciliation of pickle card funds for organizations reporting a shortage of funds.
- 6 Organizations remitting additional tax of \$1793.45 as a result of the annual report review or bingo audit.
- 1 Organizations placed on legal stipulation as result of audits, including one suspension.

In April 2000, the Audit Section began working with the MicroSupport Unit to create a new, improved and more extensive statistical FoxPro computer program. This personal computer-driven program was 90% complete at

the end of June 2000 and will be used for the entry of all 1999-2000 bingo, pickle card and lottery/raffle annual reports in September 2000. A pickle card presentation, including handouts and transparencies, was completed for the annual state conference held for representatives of all Veterans of Foreign Wars within Nebraska.

The Inspection Section was formed when the inspector supervisor and the seven inspectors were transferred from Investigation Division to Charitable Gaming Division. As of April 1, 2000, the inspection function for charitable gaming was shifted with this staff transfer.

The inspectors work out of the regional offices located in Scottsbluff, North Platte, Grand Island, Norfolk, and Omaha as well as the main office in Lincoln. While the inspectors continue to review the conduct of bingo and the sales of pickle cards by licensees, they will extend their review to the financial reporting and record keeping of licensed organizations and their use of charitable gaming funds for lawful purposes. Inspectors will also begin reviewing the conduct of county/city lottery (keno) activity including the sponsoring community's controls and the use of the funds designated for community betterment purposes.

During the reporting period, the staff assigned to inspections conducted the following charitable gaming activities:

- 37 Bingo Game Inspections
- 134 Organization Inspections (Pickle Card and Lottery/Raffle)
- 2,170 Pickle Card Operator Inspections
- 122 Keno Compliance Visitations
- 1 County/City Lottery (Keno) Inspection
- 7 Formal Presentations to gaming licensees or potential licensees

The Investigation Division is responsible for investigative and enforcement functions involving charitable gaming activities, as well as numerous other responsibilities within the Department. Investigation Division staff members are located at various locations throughout the State, having responsibility for general investigations and license applicant background investigations. On April 1, 2000, the inspection responsibilities were transferred to the Charitable Gaming Division, thus eliminating the regulatory functions of the Investigation Division and allowing the Investigators to focus entirely on investigative and enforcement responsibilities.

The Investigation Division continues to work closely with the Charitable Gaming Division on gaming-related matters in an effort to keep gaming activities as well enforced as possible, and yet flexible enough to accommodate the public. As has been the case the past few years, wagering on charitable gaming activities has continued to show a decline which, unlike in the past, has started to show an effect on the gaming activities of the Investigation Division, resulting in a 17% decrease in general investigations during this reporting period. It should be noted, however, that due to staffing changes within the Investigation Division, each Investigator is still assigned approximately the same amount of investigations as previously. The investigations conducted by the Division are both civil and criminal in nature and, following completion, a large number of those investigations are forwarded to local prosecuting attorneys for potential criminal prosecution. The Investigation Division continues to enjoy an excellent working relationship with various law enforcement agencies and prosecuting attorneys throughout the State.

During the reporting period, the Investigation Division conducted the following charitable gaming-related investigative and enforcement-related activities:

- 12 Decal Violations on Pickle Card Dispensing Devices
- 3 Manufacturer Inspections (Bingo and Pickle Card)
- 4 County/City Lottery Background Investigations
- 255 Investigations resulting from alleged violations and/or complaints (all gaming activities combined)